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May 1966

SUBJECT: Export-Import Bank Loan for Fiat-Russian Plant

The Bank has asked for foreign policy guidance as to its considering a loan of up to \$50 million to IMI (Instituto Mobiliare Italiano) for the purchase of U.S. machine tools for installation in the plant Fiat is to construct in the USSR.

The Fiat arrangement with the Russians involves a \$600 million transaction, \$300 million of which is to be local currency, supplied by the Russians, and the remaining \$300 million would be foreign exchange costs provided on a loan basis by the Fiat people through IMI.

The plant would produce only passenger cars and these at the rate of 2,000 a day. It is expected that the product would be a four-cylinder car like the Fiat 1200.

The IMI financing will be in the form of a \$300 million loan to Russia repayable over eight and a half years commencing in 1971. Interest would be about  $5\frac{1}{2}\%$ . There is only a small grace period since the final drawdown on the loan will not be consummated until 1970.

Fiat has indicated that about \$200 million of the loan would be used for capital equipment purchases in Italy, but that about \$100 million of foreign purchases, including up to \$50 million of U.S. purchases (machine tools), would be required. IMI would like to borrow the amount of U.S. purchases from the EX-IM Bank.

The Bank has informed the Italians that they see some difficulties with this transaction because it involves the Bank doing indirectly what it can't do directly (i.e., lend to the Russians).

However, the Bank has indicated it is prepared to look at the proposal but it first needs to raise it at a political level in the United States Government. The Italians claim that they had already received U.S. political clearance for the deal with the Russians, but the Bank has correctly pointed out that it is one thing for the U.S. Government to give political clearance for a deal in which it is not involved and another when its own participation is requested.

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If the Bank does go ahead and loan money to IMI, it would be on terms no more favorable than IMI's terms to Russia.

Action Requested:

The Bank now desires political guidance as to how it should handle the Fiat/IMI request. Should they turn it down because it might be construed as an indirect loan to Russia? Or, given the impact of the project on Russian consumption habits (and its attitude toward the West), together with the fact that the borrower is the Bank's old friend IMI, is it in U.S. interests to proceed and make the loan?

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